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September 9, 1998

VIA HAND DELIVERY

Mr. David Waddell  
Executive Secretary  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

RE: Application of Electric Power Board of Chattanooga  
for a Certificate of Public Convenience and Necessity  
to Provide Intrastate Telecommunications Services  
TRA Docket No. 97-07488

Dear Mr. Waddell:

Please find enclosed the original and thirteen copies of the Proposed Conditions of the Certificate of Public Convenience and Necessity to Ensure Statutory Compliance filed on Behalf of the Tennessee Cable Telecommunications Association and the Electric Power Board of Chattanooga pursuant to the requests of the Directors of the TRA at the initial hearing of this cause on April 23, 1998 for filing in the above referenced matter. Copies are being served on parties of record.

If you have any questions or concerns regarding this matter, please do not hesitate to contact me.

Very truly yours,

By: Charles B. Welch, Jr.  
Charles B. Welch, Jr.

CBWjr:cg  
cc: Parties of Record  
C:\DATA\CBW\CHATTANO\LETTERS\WADDELL 909

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
AT NASHVILLE, TENNESSEE**

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**IN RE:**

<b>APPLICATION OF ELECTRIC</b>	)	
<b>POWER BOARD OF CHATTANOOGA</b>	)	<b>DOCKET NO.</b>
<b>FOR A CERTIFICATE OF PUBLIC</b>	)	<b>97-07488</b>
<b>CONVENIENCE AND NECESSITY</b>	)	
<b>TO PROVIDE INTRASTATE</b>	)	
<b>TELECOMMUNICATIONS SERVICES</b>	)	

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***PROPOSED CONDITIONS TO CERTIFICATE OF PUBLIC CONVENIENCE  
AND NECESSITY TO ENSURE STATUTORY COMPLIANCE FILED  
ON BEHALF OF THE TENNESSEE CABLE TELECOMMUNICATIONS  
ASSOCIATION AND ELECTRIC POWER BOARD OF CHATTANOOGA***

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The Tennessee Cable Telecommunications Association ("TCTA"), and the Electric Power Board of Chattanooga ("EPB"), the Applicant herein, file this joint proposal of conditions to which the Applicant's Certificate of Public Convenience and Necessity should be subject if it is later granted in this proceeding by the Tennessee Regulatory Authority ("TRA") In preparing this joint proposal, the TCTA and the Electric Power Board of Chattanooga have consulted pursuant to the request of the Directors of the TRA at the initial hearing of this cause on April 23, 1998, and have agreed to the contents of this proposal with three exceptions which are noted

**I.**

**INTRODUCTION**

The EPB filed an Application with the TRA on October 21, 1997 for a Certificate of Public Convenience and Necessity to become a Competing Telecommunications Service Provider as defined

by Tennessee Code Annotated §65-4-101 and §65-4-201<sup>1</sup> As a municipally owned electric utility, the EPB is subject to the requirements contained in T C A §§7-52-401 - 7-52-407 which are not applicable to other Competing Telecommunications Service Providers At the initial hearing of this cause on April 23, 1998, certain intervenors, as well as the Directors, expressed a concern regarding the additional statutory requirements applicable to the Applicant in this proceeding, EPB At the request of the Directors, the TCTA and the EPB have conferred in an attempt to identify a process which could be designed to ensure compliance with these additional statutory requirements

The parties agree that in order to comply fully with the prohibition against subsidies found in T C A §7-52-402 and to comply with the requirements of §§7-52-402, 7-52-404, and 7-52-405 regarding cost imputation, the EPB should expand its accounting systems and modify portions of its accounting procedures Explained below are the essential methods that EPB should adopt to properly separate telecommunications from electric power accounting data, provide assurance that subsidization does not occur, and to properly allocate cost

## **II.**

### **PURPOSE**

The EPB has formed a telecommunications service division to achieve organizational and accounting separation from its electric power service operations The ultimate goal of establishing rules and regulations to govern the EPB's affiliate transactions is to ensure just and reasonable rates for the ratepayers of the electric utility Insuring just and reasonable rates that remain subject to regulation requires guarding against cross-subsidy of the EPB's ventures, principally its provision of

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For purposes of this joint proposal, the term "telecommunications services" are those services which require TRA authorization as a Competing Telecommunications Service Provider

telecommunications services. The rules and regulations outlined in the following sections are intended to discourage the EPB from subsidizing the costs of the newly created telecommunications division by shifting costs to the activities of the electric division. Furthermore, the rules and regulations are crafted to assure that ratepayers share in any efficiencies generated from joint use of facilities and services by the telecommunications division.

For the telecommunications division, EPB is establishing a telecommunications accounting system that is distinguishable from its electric accounting system. The new telecommunications system must enable telecommunications accounting transactions to be identified and recorded in a set of accounts distinct from the electric accounting records.

EPB has designed a chart of accounts for the telecommunications accounting system that utilizes the Federal Communications Commission's Uniform System of Accounts for Telecommunication Companies as defined in the Code of Federal Regulations, Title 47, Part 32. EPB's use of these accounts will be in accordance with the Part 32 account definitions and will simplify telecommunications reporting to the TRA. All of the accounting entries recorded in these accounts shall be directly related to telecommunications service or shall be the result of an equitable and supportable allocation between telecommunications service and electric service.

Although all of the telecommunications accounting transactions, both direct and allocated, will originate in EPB's electric accounting system, they will be uniquely identified by means of pre-defined account number ranges or by assignment to a cost center specifically designated to accumulate telecommunications accounting activity. At month-end, these transactions will be summarized and transferred to the appropriate Part 32 accounts residing in the telecommunications accounting segment of the general ledger system. From the account balances maintained in the

segment, the telecommunications accounting records will be available for reporting and historical analysis. The telecommunications financial statements prepared by EPB will present all of the accounting elements pertaining to its telecommunications operations and will be independent of EPB's electric financial statements.

Described below are the accounting principles and procedures EPB shall adopt to maintain its telecommunications and electric accounting records in conformance with the statutory requirements.

### **III.**

#### **Assignment and Allocation of Costs**

Electric services provided to the telecommunications division shall be charged to the telecommunications activity at the current electric rates and credited to the revenue account of the electric division for that service.

Costs assigned to and allocated between the electric division and the telecommunications division should be based upon the following principles:

Directly Assignable Costs - costs of assets and resources incurred exclusively for providing either electric utility services or telecommunications activities.

Directly Attributable Costs - costs of assets and resources incurred to provide both electric utility services and telecommunications activities that can be apportioned using direct measures of cost causation.

Indirectly Attributable Costs - costs of assets and resources incurred to provide both electric utility services and telecommunications activities which require an indirect measure of cost causation in order to relate the costs to the final objective.

Unattributable Costs - costs of assets and resources shared between electric utility services and telecommunications activities for which no causal relationship exists. These types of costs are accumulated and allocated to both electric utility services and telecommunications activities through the use of an appropriate allocation.

Intracompany Loans - The current market rate of interest will be applicable to loans made by one division to the other division which rate of interest will not be less than the highest rate earned by the Electric Power Board of Chattanooga on its invested funds

Taxes - The EPB will make tax equivalent payments with respect to its telecommunications services in accordance with T C A §7-52-404 and shall allocate for regulatory purposes to the cost of its telecommunications services in an amount equal to a reasonable determination of state, local and federal taxes which would be required to be paid for each fiscal year by a nongovernmental corporation that provides the identical services

#### IV.

##### Transactions with Affiliates

Charges for assets purchased by or transferred to the electric utility division from the telecommunications division shall be recorded in the operating accounts of the electric utility division at the invoice price if that price is determined by a prevailing price held out to the general public in the normal course of business. If a prevailing price for the assets received by the electric utility division is not available, the charges recorded by the electric utility division for such assets shall be the lower of their cost to the originating activity and the affiliated telecommunications division less all applicable valuation reserves, or their fair market value.

Assets sold or transferred from the electric utility division to the telecommunications division shall be recorded as operating revenues, incidental revenues or asset retirements according to the nature of the transaction involved. If such sales are reflected in tariffs on file with the TRA or in a prevailing price held out to the general public, the associated revenues shall be recorded at the prices contained therein in the appropriate revenue accounts. If no tariff or prevailing price is applicable, the proceeds from such sales shall be determined at the higher of costs less all applicable valuation reserves, or estimated fair market value of the asset.

Services provided to an affiliate pursuant to a tariff filed with a regulatory authority shall be

recorded in the appropriate revenue accounts at the tariffed rate. Services provided by the telecommunications division to the electric utility division when the same services are also provided by the telecommunications division to unaffiliated parties shall be recorded at the market rate. If the electric division provides substantially all of a service to or receives substantially all of a service from the telecommunications division which are not also provided to unaffiliated parties, the services shall be recorded at cost which shall be determined in a manner that complies with the standards and procedures of the apportionment of joint and common costs between the electric division and telecommunications division operations of the EPB.

## V.

### **Balance Sheet Accounting**

Cash – The telecommunications division will maintain bank accounts separate from those of the electric division. All telecommunications cash receipts from customers and other external parties will be deposited directly in the telecommunications division bank accounts. Telecommunications disbursements will originally be paid from electric division bank accounts, but the telecommunications division will reimburse the electric division for the total at month-end via electronic funds transfer. Services performed by one division for the benefit of the other division will be handled by invoicing and payment processing just as with any external entity. Due to the balances maintained, there should be no bank charges assigned or allocated to either the electric division or the telecommunications division.

Receivables (External) – Telecommunications receivables will be fully segregated from electric receivables. Both billings and payments for telecommunications service will be recorded directly to appropriate telecommunications receivable accounts as they occur.

Payables (External) – Telecommunications payables to external parties will be recorded in the electric division's accounting system and will be paid from electric division bank accounts. To maintain their telecommunications identity, these amounts will be recorded to telecommunications account numbers or in the telecommunications cost center. At month-end, a payable for the total reimbursement due to the electric division will be recorded in the telecommunications division's accounting system.

Intracompany Receivables and Payables – Each division will carry a receivable and payable account for intra-company transactions with the other division. These accounts will contain billings and other amounts designated for such fund transfers between the two divisions as will be needed to maintain a proper accounting separation of telecommunications and electric financial activity. Under this arrangement all intra-company transactions will be cash-based and will involve the transfer of funds. In determining the terms and conditions applicable to these intracompany receivables and payables, both divisions at EPB will utilize the same standards that are applicable to outside parties.

Materials – All material assets will initially be recorded in the inventory accounts of the electric division. Material issues will either be directly assigned to telecommunications or electric or will be allocated if joint work is performed on a work order. Currently, the expenses of the provisioning and warehouse functions are loaded as an additive to the cost of each material item issued from inventory. This procedure will be applied to telecommunications material issues also.

Plant Assets – All plant assets will initially be recorded in the plant accounts of the electric division. The accounting procedures to be applied to plant assets that will be wholly or partially used to provide telecommunications service are explained below.

Plant Dedicated to Telecommunications Service – Some plant assets may be bought or



constructed solely for telecommunications service purposes for which the telecommunications division will fully reimburse the electric division. Other plant assets, such as a fiber optic route, will be constructed to provide both telecommunications and electric service. Both types of assets will be recorded in the electric division's plant accounts when installed, and a determination will be made regarding the portion that will be used by the electric division. The remaining portion, including excess capacity, will be purchased by the telecommunications division (with the telecommunications division paying the proportionate cost as shown on the electric division books) and recorded as a telecommunications asset in the appropriate telecommunications plant account. In the electric division's plant records, this telecommunications plant portion will be reported as a contra-asset. On the electric books it will be referred to as Plant Dedicated to Telecommunications in order to specifically identify it as plant used to provide telecommunications service. Retirement accounting entries for plant that has been apportioned between telecommunications and electric plant records will be divided between telecommunications and electric according to the average installation apportionment for the specific type of plant asset.

Plant Leased to Telecommunications Division – Plant assets such as poles, land, and buildings, which are jointly used by both divisions but which are not easily physically divisible and assignable between the two divisions, will remain entirely in the electric plant accounts and be leased by the telecommunications division rather than purchased from the electric division. All leases will be calculated in accordance with applicable FCC Part 32 definitions. The use of poles for pole attachments, which is currently already leased to other entities, and any similar items will be leased to the telecommunications division at the highest rate paid by an outside party for comparable pole attachments. For other leased plant, the electric division will develop a lease price that will fully

cover the depreciation, maintenance, and other loaded costs of the asset used. For example, floor space in the electric buildings will be leased to the telecommunications division on a per-square-foot basis.

Construction Work in Progress – EPB currently uses a work order system very similar to those used by telecommunications companies. The cost of materials, labor, vehicles and heavy equipment, benefits, and other items that are required to complete a telecommunications construction job will be processed through this system and separately identified from the costs of electric work. The accounting procedures for determining and recording these costs are described below in the Accounting for Revenues and Expenses section.

Depreciation – All depreciable assets recorded in the plant accounts of the telephone division will be depreciated in the telecommunications accounting system. Depreciation rates will reflect industry normal life spans. Like assets of the electric division and the telecommunications division will be depreciated using the same depreciation rate.

Amortization – Non-tangible assets and assets such as capitalized software will be amortized over industry normal life spans.

## VI.

### Accounting for Revenues and Expenses

Revenues – Telecommunications service revenues will be recorded directly to telecommunications revenue accounts as they are earned.

Labor Expenses – Labor for field employees and contractors performing telecommunications operation and maintenance work will be directly assigned to telecommunications expense accounts at the time such work occurs or will be appropriately allocated if telecommunications and electric

work are jointly performed on a work order. Labor for the majority of office personnel will be allocated between telecommunications and electric on the basis of percentages determined by time studies, which will be updated no less frequently than annually. As an example, the labor for accounting personnel will be divided between telecommunications and electric expense accounts according to a periodic analysis of the accounting functions performed by each employee. Such labor allocations will also be appropriately revised whenever work assignments or other pertinent circumstances change. Labor expenses for management and certain other administrative personnel will be allocated as a general and administrative expense as described in a later section.

Labor-Related Expenses – Training hours and time spent away from work due to sick leave, holidays, vacations, etc. will be accumulated monthly at the department level and prorated to the same accounts and in the same proportion as the department's labor dollars are charged. The allocation of payroll taxes and employee insurance to telecommunications and electric accounts is described in a later section.

Other Expenses – EPB's expense account numbers include very detailed functional codes for tracking specific expense categories such as supplies, membership dues, publications, postage, etc. Some expenses will be directly assigned to telephone, to electric, or to both if a basis for direct assignment can be established. An example would be travel, which can be directly assigned according to the specific circumstances of a trip taken. Other expenses such as departmental office supplies will be allocated, using labor dollars, to the same accounts where the department's labor is directly recorded, whether telephone, electric, or both. The following explains the basis for allocation of certain general and administrative expenses and of several other major expense categories that will need to be allocated between telephone and electric accounts.

Payroll Taxes – EPB will allocate payroll taxes on the basis of total labor dollars

Employee Insurance Expenses – EPB expenses for the employee retirement plan, disability insurance, term life insurance, and other benefits that are directly related to labor expenses will be allocated using total labor dollars. Other expenses such as health and dental insurance that are not a function of labor dollars will be allocated on the basis of labor hours.

Other Insurance Expenses – Property and liability insurance expenses will be allocated as appropriate. For example, the allocation for insurance on assets will be determined by the assets insured. Insurance on vehicles is currently distributed to accounts as part of the vehicle expense clearing process. Some insurance policies, such as general liability, have no directly assignable basis and will be allocated using total labor dollars.

Human Resources – The labor and expenses for the operation of the Human Resources Department will be allocated to the telecommunications and electric divisions using total labor dollars.

Management and Other Administrative Personnel – Labor and expenses that cannot be directly assigned to telecommunications and electric accounts will be allocated using total labor dollars.

Board of Directors' Expenses – These expenses will be allocated using total labor dollars.

Services of City of Chattanooga – EPB currently pays the City of Chattanooga a monthly fee for two City officials to sign checks issued by EPB. These fees will be allocated using total labor dollars.

Other General and Administrative Expenses – Only a relatively small portion of these expenses cannot be directly assigned or have no easily determinable allocation basis. These expenses will be allocated between telecommunications and electric using total labor dollars.

Telecommunications Expense – It is anticipated that telecommunications service for the electric division will be purchased from the telecommunications division. The electric division will be treated as any other telecommunications customer and will be billed at tariffed rates. These costs along with any other associated telecommunications costs are part of other General and Administrative Expenses and the telecommunications division will pay its share in accordance with the allocation of total labor dollars.

Payment Processing – For processing telecommunications payments, the electric division will charge the telecommunications division using the same terms and conditions available to other entities on a nondiscriminatory basis,

Marketing and Advertising – Directly assignable marketing and advertising costs will be directly assigned. For example, a billboard presenting telecommunications service features will be assigned to the telecommunications division. A very small dollar amount of marketing expense is anticipated to be of a joint nature. Such joint marketing expenses will be allocated between the telecommunications and electric division using gross revenues. EPB does not currently permit other entities to have bill-stuffing privileges in its electric bills and shall not allow the telecommunications division to have such ability, unless provided to other third-party telecommunications companies.

Vehicle Expense – To allocate vehicle expenses to telecommunications accounts, EPB will continue to use the current system in which detailed records of the costs to operate and maintain vehicles are maintained. These vehicle expenses, including depreciation and insurance, are allocated to accounts in accordance with vehicle use, which is normally determined by the work performed by the employees to whom they are assigned. The expenses for vehicles assigned to crews that perform construction and maintenance work are allocated to accounts on a cost-per-hour basis. For all other

vehicles, the allocation basis is cost per mile

Mapping System and Software – EPB maintains a computerized mapping system. Like most of the other internally developed systems, the mapping system was directly expensed, and there is no accumulated capitalized amount to amortize. All expenses, including modifying or updating the system or other expenses associated with mapping, will be allocated between the telecommunications and electric divisions using the route miles of facilities mapped.

Service Restoration – This is another software system for which the costs have been directly expensed as incurred. All expenses, including modifying or updating the system or other expenses of the service restoration system, will be allocated to the telecommunications and electric divisions on the basis of the direct labor of employees performing field repairs.

## VI.

### Code of Conduct

Regulatory Compliance - The telecommunications division of EPB will be subject to all rules and regulations of the TRA in the same manner and to the same extent as other telecommunications service providers, including without limitation, rules and orders governing anti-competitive practices.

Treatment of Similarly-Situated Parties - The EPB shall process all similar requests for the services of the electric utility division and the telecommunications division in the same manner and within the same time period whether requested on behalf of an affiliate of the EPB or a third party.

Customer Information - Customer [account<sup>2</sup>] information obtained by the electric division of

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The TCTA and the EPB disagree as to the language of this paragraph. The EPB submits that the word account should be inserted to limit the type of information for which authorized disclosure is required. The TCTA contends that any and all customer information should be subject to the authorization requirement.

the EPB shall not be provided to the telecommunications division or to third parties unless the customer to which the customer information relates has given express written authorization to do so and then such information shall be provided by the EPB only to the extent authorized and only to the parties specifically authorized to receive it by the customer

Billing and Collection for Telecommunications Services - In the event that the EPB elects to include amounts due for its telecommunications division activities on the monthly bill of the electric utility division, notice must be provided to third-party telecommunications service providers offering the same terms for billing and collection as provided to the telephone division. For this purpose, sufficient notice is deemed to be a public notice published in at least two newspapers of general circulation at a minimum of 60 days prior to including the amounts of the telecommunications division on the monthly bills. *[Furthermore, the customer receiving the consolidated bill must provide authorization to the EPB to act as its agent for the purpose of billing and collecting amounts on behalf of the affiliated telecommunications division or a third party.]*<sup>3</sup>

Promotional Inserts in Bills - In the event that the EPB elects to insert any advertising or promotional materials on behalf of the telecommunications division into the envelope of the monthly bill of the regulated electric utility division, the EPB shall permit any third party to insert advertising and promotional materials of the same general type into the envelope, after sufficient public notice, upon request, on the same terms and on a fair and non-discriminatory basis. For this purpose, sufficient notice is deemed to be a public notice published in at least two newspapers of general circulation at a minimum of 60 days prior to including the advertising and promotional inserts of the

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The EPB contends that this language should be deleted. The TCTA submits that consolidated billing should not be permitted without customer authorization.

telecommunications division in the envelope for the monthly bills

Separate Telephone Numbers - The EPB shall publish separate telephone numbers for its electric utility division and its telecommunications division. Nothing shall prevent the EPB from maintaining an internal telephone system commonly shared by the telecommunications division and the electric division.

Anti-Competitive Inducements - The EPB shall not state in any advertising, promotional materials, or sales efforts, that consumers who purchase products or services from its telecommunications division will receive preferential treatment in the provision of services from its electric utility division or that any other benefit will inure to customers resulting from its dealings with the telecommunications division.

Sales References by Utility Personnel - The personnel of the electric utility division shall not specify a preference for any product or service of the telecommunications division over like services of a third party provider.

Joint Marketing of Regulated and Nonregulated Services - The electric division and the telecommunications division of the Electric Power Board of Chattanooga may jointly offer their respective products and services to customers provided that the customer is informed (a) of the separate identities of each division and (b) that the products and services of the regulated electric utility division are distinct and separately priced from the offerings of the nonregulated telephone division and the customer may select one without the other.

## **VII.**

### **Reporting Requirements**

The telecommunications division of the EPB shall report to the TRA on an annual basis



- (a) the name and address of all affiliated divisions,
- (b) all contracts entered into with affiliated divisions or entity, and all transactions undertaken with any affiliates without a written contract,
- (c) the amount of affiliate transactions by affiliate by account charged,
- (d) the basis used to record affiliate transactions (i.e. book value, fair market value, tariff, fully distributed cost),
- (e) total costs allocated or charged back to each division,
- (f) updates of the allocation factors used to allocate costs between the electric division and the telecommunications division,
- (g) the financial statement data, as recorded for each EPB division, in whatever format the TRA requires, including a copy of EPB's audited financial data for each division and [*on a consolidated basis*]<sup>4</sup>
- (h) a computation of all tax allocations for regulatory purposes as follows
  - (1) **Property Taxes** Computation will be net book value for taxable assets multiplied by the current City or County tax rate as appropriate. An offsetting adjustment will be made to remove any In Lieu Of Taxes currently paid by EPB, which are surrogate payments for property and other taxes.
  - (2) **Sales Taxes** Computation will be the purchases of taxable goods and services during the reporting period multiplied by the applicable sales tax rate. EPB will show such an amount as totally expensed and will not reflect that portions of it may have been capitalized.
  - (3) **Other State and Local Taxes** Computation will be based on applicable tax code.
  - (4) **Federal Income Tax** Calculations will involve using the current federal corporate income tax rate multiplied by the net taxable income of the telecommunications division. EPB will make adjustments and deferments to taxes as appropriate and as used by other entities. For example, taxes will be

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The TCTA submits that the EPB should provide a consolidated statement for all of its divisions. The EPB contends that a consolidated financial statement is unnecessary.

calculated using allowable tax depreciation rather than book depreciation

The EPB shall make available the books and records of the electric division and the telecommunications division and any other affiliated company upon request of the TRA

The EPB shall maintain books of account and supporting documentation in sufficient detail to permit verification of compliance with the cost assignment and allocation principles and the Code of Conduct approved by the TRA

The EPB shall submit all other reports that are required to be filed with the TRA by Competing Telecommunications Service Providers

Respectfully submitted,

FARRIS, MATHEWS,  
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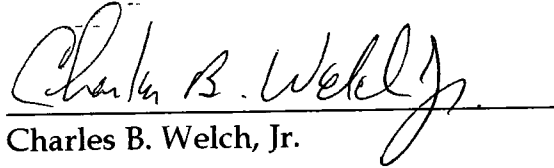
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CERTIFICATE OF SERVICE

I, Charles B. Welch, Jr., hereby certify that I have served a copy of the foregoing document on the parties on the attached list, by depositing copy of same in the U.S. Mail, postage prepaid this the 9th day of September, 1998.

  
Charles B. Welch, Jr.

Docket No 97-07488 - Service List

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